Summary Translation of Question & Answer Session at the FY 2017 Management Direction Progress Review Briefing for Analysts

Date:	June 6, 2017
Location:	Fujitsu Headquarters, Tokyo
Presenter:	Tatsuya Tanaka, President and Representative Director
Co-Presenters:	Norihiko Taniguchi, Director, SEVP
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Questioner A

Q1: *I see Fujitsu Research Institute on slide 3 of the presentation materials, but I thought Fujitsu Research Institute was positioned within the global frontlines, rather, or that it would be positioned closer to the customer. I also wonder if Fujitsu Laboratories might as well be closer to the customer for its solutions-related research. Could you please tell us the pros and cons of intentionally leaving these two research organizations independent?*

A1 (Tanaka): Fujitsu Research Institute and Fujitsu Laboratories each have technologies and know-how that are necessary for Fujitsu's growth, and so we would like to bring out their distinctive characteristics, including Fujitsu Laboratories' and Fujitsu Research Institute's features and future directions. As part of this effort, we think there will be competition to secure talent, so we think that, at the current stage, due in part to HR policy reasons, it is better to leave the two companies independent. We want them to collaborate with our business units and sales units, while also enhancing the necessary R&D activities on technologies.

Q2: *I believe Fujitsu Research Institute does research for business models, so would it not be better to position it in an organization closer to customers or global players?*

A2 (Tanaka): In this diagram, it is shown as independent, but in reality, it coordinates closely with our sales units in Japan, and we would like such activity to be able to expand globally.

Q3: *Please tell us how profit sharing and cost allocation with customers and partners will be handled when the earlier-explained ecosystem-based open innovation succeeds.*

A3 (Tanaka): At this most recent Fujitsu Forum, there were more visitors from business units than those from IT systems departments. We expect that this transition will give rise to new business opportunities. We believe that in thinking about business together with the customer, as well as about the products and services, ICT will become indispensable, and that will expand our opportunities. We are not yet sure what will happen with contracts in this process, but we expect to step away from the role in which Fujitsu is a subcontractor.

Q4: *Going forward, as various success stories are generated through open innovation, I think that contractual management will become extremely important. While your company is strong in intellectual property, could you tell us how strong Fujitsu is in this arena, when you have an opportunity in the future?*

A4 (Tanaka): Understood.

<u>Questioner B</u>

Q1: *On slide 9 of the presentation materials, you have made a new pledge to achieve an operating profit margin in the zone of 6%. The operating profit forecast for the company for fiscal 2017 is 185.0 billion yen, but if the profit margin were to be 6% the operating profit would be 250.0 billion yen. This would mean that your profits would have to increase by a further 65.0 billion yen over your forecast for fiscal 2017, so in which of your existing segments are we going to see the biggest increase in profit?*

A1 (Tanaka): The leading role will be played by our systems integration business. Expectations are on the rise particularly for the Japanese market, and our business is continuing to do very well. With regard to our business targets, we will proceed to make inroads into the business units of our customers and broaden our range of customers. We will also be expanding these initiatives around the world, while taking into account the characteristics of each region outside Japan.

Q2: *I think that Japanese companies are not very good at generating money globally from intellectual property. In part, profit is generated with lawyers, intellectual property, contracts, and negotiations. And it requires management and those on the* *front lines to have a completely different mindset from the conventional manufacturing business model in Japan. I do not think that Fujitsu has such human resources or intellectual property lawyers. How will you compensate for this situation?*

A2 (Tanaka): We would like to bring in outside talent. We already have some exceptional talent in the intellectual property and legal fields at Fujitsu. Because this is becoming more and more important, we will continue to strengthen our capabilities in this area. In alliances, contracts with customers and the content of contracts for major projects can differ significantly, so we will strengthen the corresponding personnel for handling this type of work.

Questioner C

Q1: *I would like to ask about the diagram on slide 10 of the presentation materials. Taking the improvement in operating profit margins generated by growth in your core business and then converting it into operating profit, the number is fairly large. How much of the profit is due to an increase in revenues, and how much of it is due to an improvement in profit margins?*

A1 (Tanaka): In Japan, systems integration business is continuing to do very well, and we are also broadening the range of businesses we are targeting. In conjunction with this, we will be expanding our Global Delivery Center organization and making full use of offshoring in line with this, in order to further enhance our ability to generate profit. At the same time, in our global business, it is more important than anything to ensure that businesses are profit generating. While shifting our focus further toward solution services, we are advancing the use of our Global Delivery Centers which are expanding worldwide, and striving to enhance our cost competitiveness to strengthen our business.

Q2: *With regard to transformation expenses and returns, it looks as if you have included them as a factor in achieving your medium-term goal of a 10% operating profit margin. Should we understand these as something that will appear in this fiscal period? It looks as though the amount of the returns is significant, but will they arrive in such a short period?*

A2 (Tanaka): I spoke about this at the financial results presentation at the end of April, but returns factored into fiscal 2017 are only the profits from the sale of Nifty. Nothing else has been factored in. Our profit forecast for fiscal 2017 was centered on our core businesses. With regard to returns, there are a number of factors, so I will hold off on making any specific comments, but we would like to turn them into investments toward future growth.

Q3: *Are you saying that transformation activities will not be limited to fiscal 2017, but will continue into the future? Or are you planning to finish with transformation expenses and returns in fiscal 2017?*

A3 (Tanaka): With regard to the plan we initially made, there has been some delay as I have mentioned previously, but we intend to finish in fiscal 2017. In conjunction with this, we will continue to strive for optimal solutions as the environment changes rapidly. Going forward, we will keep various options in view, so there may be transformation initiatives that occur after fiscal 2017.

Questioner D

Q1: *In the materials for the last Management Direction briefing in October of 2016, for its position in the medium- to long-term, Ubiquitous Solutions was presented with dotted lines connected to your core business of Technology Solutions, while Device Solutions was presented differently, with no dotted lines. On slide 3 of your current presentation materials, however, Ubiquitous Solutions and Device Solution are presented in the same way, in parallel. Does this signify some kind of change in your outlook? In addition, your plans for your consolidated operating profit margin for fiscal 2018 are in the 6% zone, but if Ubiquitous Solutions and Device Solutions were no longer consolidated in your financial results, I think your operating profit margin would be in the 7% zone. Since you are projecting a margin in the 6% zone, should we therefore assume that you will not exclude them from your consolidated results?*

A1 (Tanaka): There has been no major change in our direction. At this stage, I am unable to talk about specifics, but our policy for independent businesses is to first make them independent as subsidiaries and then make them into strong business entities. Our approach is to see if there are synergies with Technology Solutions and, while monitoring the situation, move aggressively if better options emerge. When we reach the stage at which we can make an announcement, we will immediately make an announcement. Our assumption regarding the 6% zone is that it signifies a certain level of progress in our transformation.

Q2: *When you meet your targets of 150 billion yen in free cash flow and an operating profit margin of 10%, what level of shareholder returns can we expect? There is an IT services company that is smaller than Fujitsu that has a dividend payout ratio of around 35%. Your projected dividend payout ratio for fiscal 2017 is 15%, but can we anticipate that you will be doubling it in the future?*

A2 (Tanaka): We are paying attention to our dividend payout ratio, and shareholder returns are also very important to us. Our policy is for shareholders to earn stable returns based on our ability to generate solid profits. At the same time, when necessary, we want to be able to make solid investments. In accordance with stable growth, our policy is to do what the circumstances warrant, including the potential for a raise in our dividends.

Questioner E

Q1: *Please tell us how you define being "number one in Asia" and what areas you are focusing on.*

A1 (Tanaka): This is not limited to Asia, but each country is different. In each country, we want to raise Fujitsu's profile and create an area of business in which we are number one. When we do that for each country, in total, we mean that we will be number one in Asia. We want to stake our success on the business areas of system integration and knowledge integration.

Questioner F

Q1: *Regarding shareholder returns, please let me confirm your position. Is it that you would like to increase your dividend payout ratio, but that you are not thinking of raising it to the same level as other IT-focused companies, or that it will just take a bit more time for you to do so? Please explain your position. In addition, please let us know whether you are considering stock buybacks as an option.*

A1 (Tanaka): Management is about operating a company to have stable growth and provide its returns to shareholders. Our priority is on creating the fundamentals that will generate higher profits, and provide stable returns to shareholders in line with those profits. Of course, we are paying attention to our dividend payout ratio, and we realize that a higher payout ratio would be better, but we also think that prioritizing growth will produce shareholder returns. Currently we are not considering stock buybacks.

Q2: *For your Global Delivery Centers, I think you had put out an estimate that you would have 18,000 employees working in them by the end of fiscal 2017, but I do not think that it is very easy to increase the number of people so quickly. How is your progress? In addition, I think you are able to further increase employee numbers for GDC in fiscal 2018 and beyond, but what is your next target level?*

A2 (Taniguchi): As of the end of fiscal 2016, we had more than 10,000 employees working in our eight Global Delivery Centers worldwide. The utilization of our Global Delivery Centers in EMEIA and the Americas is steadily increasing, and full-fledged usage from Japan began in the second half of fiscal 2016. We expect to increase the number of employees working in them by around 3,000 employees in fiscal 2017. Our plan is to steadily increase the number of employees in our Global Delivery Centers.

Q3: *If you aim to achieve an operating profit margin of 10%, what does that imply about how many people you need to have in your Global Delivery Centers?*

A3 (Taniguchi): The number of employees in our Global Delivery Centers and offshore facilities corresponds to their productivity. We have a target for reducing our costs, which we intend to meet through the multiplier effect on productivity that accompanies the shift to our Global Delivery Centers. With higher productivity, we should be able to meet our objectives with fewer people than originally planned. We want to adjust the number of people based on the extent we are meeting our objectives.

Questioner G

Q1: *Please explain the diagram on slide 10. In terms of transformation costs and returns, I think you said that in the past two years you have spent 90 billion yen in transformation costs and have 50 billion yen in costs remaining, while you have 110 billion yen remaining in returns from the transformation. In the diagram, do the "returns from transformation" reflect the results of your transformation, or are these temporary gains that you achieve with the sale of businesses, etc.?*

A1 (Tanaka): The diagram is an overall depiction of our structure going forward. The returns from transformation are one-time gains. The actual returns in our core business that we receive as a result of executing the transformation are included in the core business section. The returns from our efforts undertaken in fiscal 2016 will gradually appear starting this fiscal year.

Q2: *Your projections for fiscal 2017 assume that there will be no growth in revenue, but that does not seem to fit with your explanation today of your growth strategy. Please explain how these two different points will be connected as well as your direction and the kind of trends that will enable the increase in revenue.*

A2 (Tanaka): There is still room for our business in Japan to expand. Our focus on customers will shift from their IT systems departments to their business departments, expanding our business. At the same time, we will be creating a model for high profitability in Japan by raising our cost competitiveness and productivity through digitalization and automation along with the use of offshore facilities. Another issue is our business outside of Japan, and we are trying to shift away from being a hardware-oriented business. By doing so, we plan to improve our profit margins and achieve our total target profit margin of domestic and international businesses.

<u>Questioner H</u>

Q1: *Please let us know if there is anything you can update us regarding your collaboration with Lenovo. In addition, in February of this year it was officially announced that you would change your cross-shareholding relationship with Fuji Electric. Please tell us why you have not yet sold your shares, while Fuji Electric quickly sold its shareholdings.*

A1 (Tanaka): We are in the final stages of negotiations with Lenovo. We are concluding discussions about how to generate future synergy, so I think we should be able to reach an agreement in the not-too-distant future. It is not the case that some major problem has risen. Regarding our shareholdings in Fuji Electric, we have a particular target in mind, so please regard our current actions as part of that process.

Q2: *You mentioned that you would strengthen your professional expertise so that you would not function merely as a subcontractor, but in the case of Google, for example, the company has invested huge amounts of money in ADAS (advanced driver-assistance systems). Fujitsu is a very prominent IT vendor, but in an area such as drug discovery, for instance, I wonder how far Fujitsu would go. Getting involved to an equal extent in* *all kinds of industries and business areas strikes me as something rather different from specialization. Externally, how should we understand this difference?*

A2 (Tanaka): To express it in simple terms, our strategy is to be at the “center” rather than the “edge.” All kinds of things will be connected if you are at the center, and you will look at things from a comprehensive perspective. Furthermore, you will be equipped with total security and offer services while ensuring operational quality. However, rather than simply operating the center, we want to operate with a business understanding to the extent where we can preemptively make proposals to customers in response to changes in their business type. With our existing technologies and experience, for areas in which we are particularly adept, we want to get more broadly involved in the business of our customers.

Q3: *With the example of automobiles, rather than self-driving vehicle themselves, connection between the vehicle and social infrastructure, such as a traffic coordination center, will be necessary. Am I correct in understanding that Fujitsu will proceed with expertise in that field?*

A3 (Tanaka): Yes, that is how we weigh our priorities.